# *Financial Markets This Week*

**11 JULY 2025**

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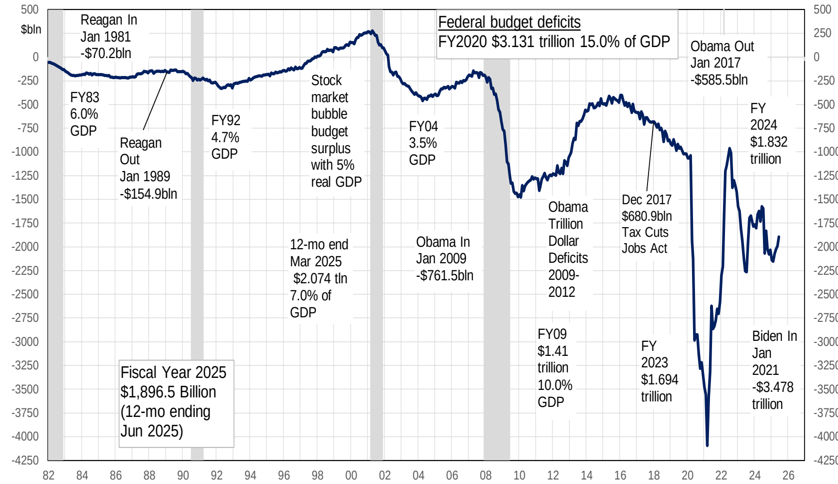
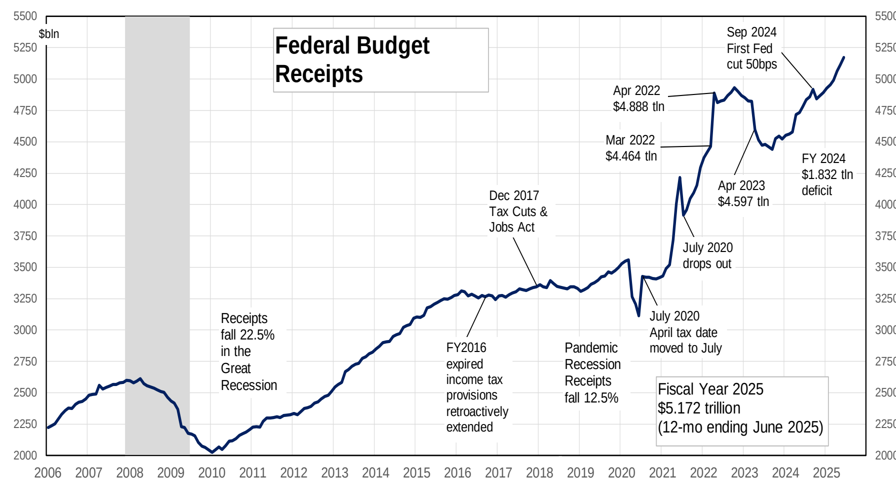
## FISCAL CRISIS




We were going to go with "FEDERAL BUDGET" this week, but none of our Washington contacts would read it. The June 2025 Federal budget results were released Friday at 2pm which covers three-quarters of the current fiscal year. Congress voted through the big bill, but FY2026 budget levels are still murky, though the OMB Mid-Session Budget Review which is due any day now might help. The CBO says the bill will add $3.4 trillion to the national debt over the next ten years, an amount which has some up in arms, although this would be a good result actually (even if the number will go higher as Congress is unlikely to let many provisions expire before the end of the ten year period). Historically, nominal national Federal debt levels have not increased less than $5 trillion over any ten year span since 2008. The deficit is running $1.896 trillion this year on a 12-month trailing sum basis versus $1.832 trillion in FY2024. Receipts have rebounded after the slowdown in FY2023: smaller capital gains CY2022 S&P 500 -19.4%, California natural disaster delayed tax payments until FY2024. The gain in FY2025 to $5.172 trillion is mostly income taxes; import tariffs FY2025 YTD are $108.0 billion versus $55.6 billion this time last year. Before the Trump tariff letters on Monday, June 2025 customs duties were $26.6 billion, about $20 billion more than in June 2024, current collections then, going forward add about $250 billion in revenues to fight the budget deficit red ink. Anyway, consumers have income, are paying the IRS taxes, so no recession. For FY2025, 12-month trailing sums are $1.896 billion for the deficit and $7.068 trillion for spending. The deficit is "affordable" if it increases the national debt less than the percentage increase in nominal GDP which was a little less at 4.7% year-on-year given Q1 real GDP of -0.5%.




| Jun 2025 | Marketable Treasuries $trillion | Average Rate % |
|---|---|---|
| Bills | 5.783 | 4.306 |
| Notes | 15.068 | 3.048 |
| Bonds | 5.030 | 3.297 |

Interest on the national debt is a topic of interest. Thank you for your attention to this matter. Our view is not to go overboard with your "fiscal crisis" concern, just wait for the bond market to lead the way by reacting negatively. Bonds have not. We read one article forecasting the national debt would get so bad that bond yields would move up 60 bps higher. Seriously. [Federal debt to the penny]() was $36.2 in June 2025, but marketable Treasuries outstanding (Bills Notes Bonds) are only $25.9 billion. The rest of the national debt is nonmarketable and "does not matter." If Fed rates come down to 3%, the yield curve out to 10-years goes out to 100 bps, so the average rate on notes, currently 3.048%, could still climb somewhat higher, same for bonds. Bill yields would drop to about 3% so there are some interest savings there, but there were only $5.783 trillion of bills outstanding at the end of June.

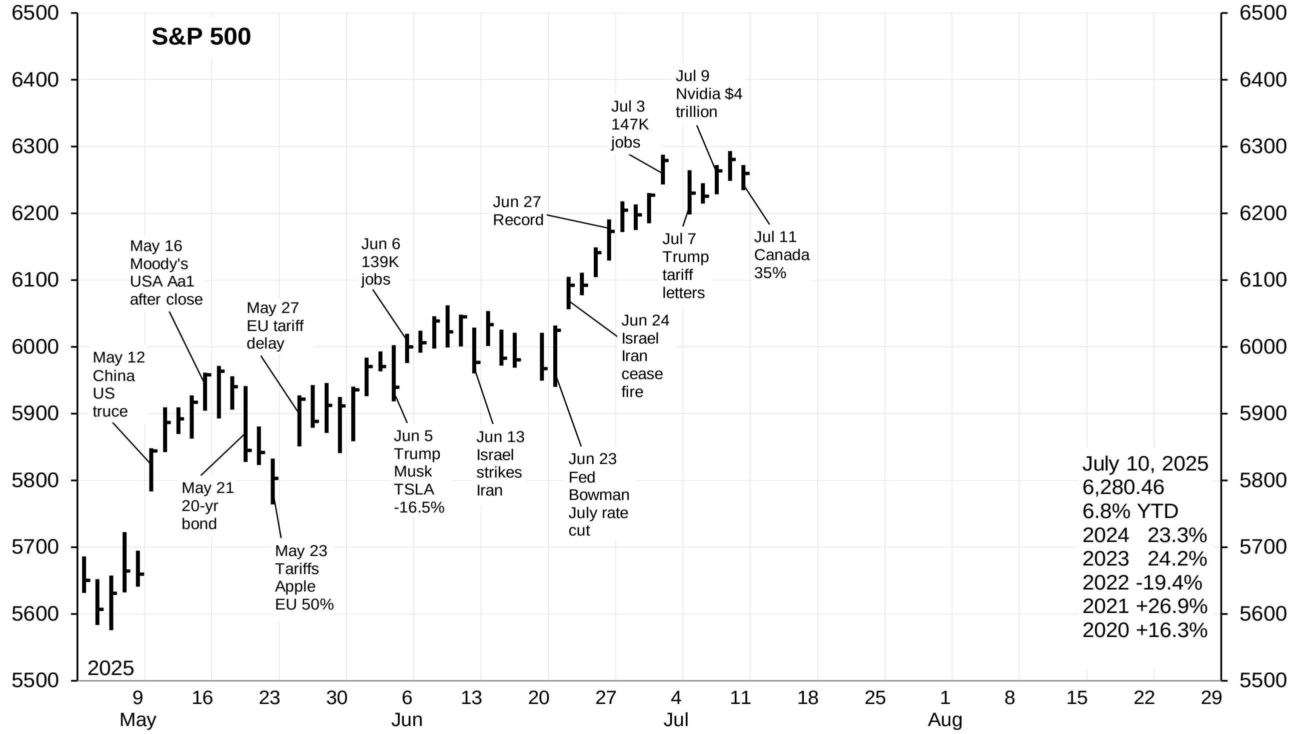
| **Federal Government Spending ($bln)** **Where to cut?** | 3 Qtrs FY25 Q4 24-Q2 25 | 3 Qtrs FY24 Q4 23-Q2 24 | Fiscal Year Changes | Fiscal Year % chg | Full Year FY 2024 |
|---|---|---|---|---|---|
| TOTAL BUDGET OUTLAYS | 5,345.518 | 5,027.456 | 318.062 | 6.3 | 6,750.499 |
| Legislative | 5.311 | 4.985 | 0.326 | 6.5 | 6.835 |
| Judicial | 7.134 | 6.931 | 0.203 | 2.9 | 9.480 |
| Agriculture | 176.544 | 159.939 | 16.605 | 10.4 | 203.402 |
| Fed Crop Insurance fund | 16.288 | 11.408 | 4.880 | 42.8 | 9.768 |
| Food Stamps | 80.108 | 79.715 | 0.393 | 0.5 | 106.754 |
| Child Nutrition | 27.592 | 26.447 | 1.145 | 4.3 | 32.733 |
| Commerce | 19.569 | 10.259 | 9.310 | 90.7 | 14.831 |
| Defense | 647.416 | 608.570 | 38.846 | 6.4 | 826.277 |
| Military Personnel | 159.763 | 148.446 | 11.317 | 7.6 | 191.945 |
| Operation Maintenance | 251.580 | 238.766 | 12.814 | 5.4 | 332.047 |
| Procurement | 121.817 | 112.153 | 9.664 | 8.6 | 152.259 |
| Research Development | 102.139 | 99.142 | 2.997 | 3.0 | 137.960 |
| Military Construction | 9.886 | 8.922 | 0.964 | 10.8 | 12.068 |
| Education | 100.812 | 202.496 | -101.684 | -- | 268.353 |
| Office of Federal Student Aid | 40.344 | 121.830 | -81.486 | -66.9 | 160.693 |
| Energy | 39.526 | 36.740 | 2.786 | 7.6 | 49.315 |
| Health Human Services | 1376.007 | 1257.589 | 118.418 | 9.4 | 1720.621 |
| Medicare | 862.914 | 761.073 | 101.841 | 13.4 | 1052.675 |
| Medicaid States Grants | 491.381 | 459.861 | 31.520 | 6.9 | 617.517 |
| Homeland Security | 88.115 | 65.711 | 22.404 | 34.1 | 89.290 |
| Housing Urban Development | 53.671 | 35.894 | 17.777 | 49.5 | 51.976 |
| Interior | 16.037 | 12.599 | 3.438 | 27.3 | 17.088 |
| Justice | 32.876 | 32.170 | 0.706 | 2.2 | 43.995 |
| Labor | 45.279 | 39.216 | 6.063 | 15.5 | 65.672 |
| State Unemployment Benefits | 28.906 | 27.153 | 1.753 | 6.5 | 36.611 |
| State | 22.291 | 24.638 | -2.347 | -9.5 | 37.017 |
| Transportation | 85.894 | 79.192 | 6.702 | 8.5 | 117.389 |
| FAA | 17.796 | 16.926 | 0.870 | 5.1 | 23.096 |
| Federal Highway Admin. | 43.527 | 40.671 | 2.856 | 7.0 | 61.523 |
| Treasury | 1150.632 | 1045.231 | 105.401 | 10.1 | 1316.852 |
| IRS | 234.015 | 183.566 | 50.449 | 27.5 | 229.985 |
| Premium Tax Credit | 91.874 | 75.481 | 16.393 | 21.7 | 110.195 |
| Earned Income Credit | 64.532 | 58.681 | 5.851 | 10.0 | 60.011 |
| Child Tax Credit | 25.949 | 25.567 | 0.382 | -- | 26.247 |
| Interest on Public Debt | 920.965 | 867.746 | 53.219 | 6.1 | 1133.037 |
| Veterans Affairs | 277.824 | 235.283 | 42.541 | 18.1 | 325.004 |
| Corps of Engineers | 9.704 | 8.130 | 1.574 | 19.4 | 11.345 |
| Other Defense Civil Programs | 57.890 | 46.847 | 11.043 | 23.6 | 66.220 |
| Environmental Protection | 32.229 | 9.573 | 22.656 | 236.7 | 13.699 |
| Exec. Office of President | -0.598 | 0.451 | -1.049 | -232.6 | 0.607 |
| International Assistance | 23.018 | 22.894 | 0.124 | 0.5 | 35.794 |
| NASA | 18.064 | 18.708 | -0.644 | -3.4 | 25.015 |
| National Science Foundation | 6.959 | 6.369 | 0.590 | 9.3 | 9.392 |
| Personnel Management | 96.559 | 94.350 | 2.209 | 2.3 | 126.173 |
| Small Business Admin. | 1.703 | 32.554 | -30.851 | -94.8 | 33.197 |
| Social Security Admin. | 1230.237 | 1132.130 | 98.107 | 8.7 | 1519.734 |
| Retirement Benefits | 1052.402 | 963.151 | 89.251 | 9.3 | 1293.782 |
| Federal Disability Payments | 117.950 | 114.946 | 3.004 | 2.6 | 153.918 |
| Other Independent Agencies | 5.571 | 76.993 | -71.422 | -- | 77.793 |

The changes down in Washington have not hit government spending yet as FY2025 spending through June is up 6.3% from comparable year ago levels. Interest on public debt is up 6.1% with the Fed starting 100 bps of rate cuts to 4.5% last September. Homeland Security is supposed to get more money, and was already up 34.1% to $88.115 billion on FEMA Disaster Relief. Medicaid changes are slowly coming, up 6.9% to $491.4 billion. Food stamps barely changed at $80.1 billion. Stay tuned. The Federal budget deficit needs to stick below $1.7 trillion if the economy is growing 4.7%. No fiscal crisis yet.

| Interest | FY2021 | FY2022 | FY2023 | FY2024 | FY2025* |
|---|---|---|---|---|---|
| Gross | 562.4 | 717.6 | 879.3 | 1,133.0 | 921.0 |
| Net | 352.3 | 475.1 | 659.2 | 881.7 | 748.7 |
| Natl Debt | 28,428.9 | 30,928.9 | 33,167.4 | 35,464.7 | 36,211.5 |
| $ change | 1,483.5 | 2,500.0 | 2,238.5 | 2,297.3 | 746.8 |
| Deficit | 2,775.6 | 1,375.5 | 1,695.2 | 1,832.4 | 1,337.4 |
| 10-yr Yield | 1.27 | 2.38 | 3.81 | 4.25 | 4.37 |

* FY2025 through June

## INTEREST RATES

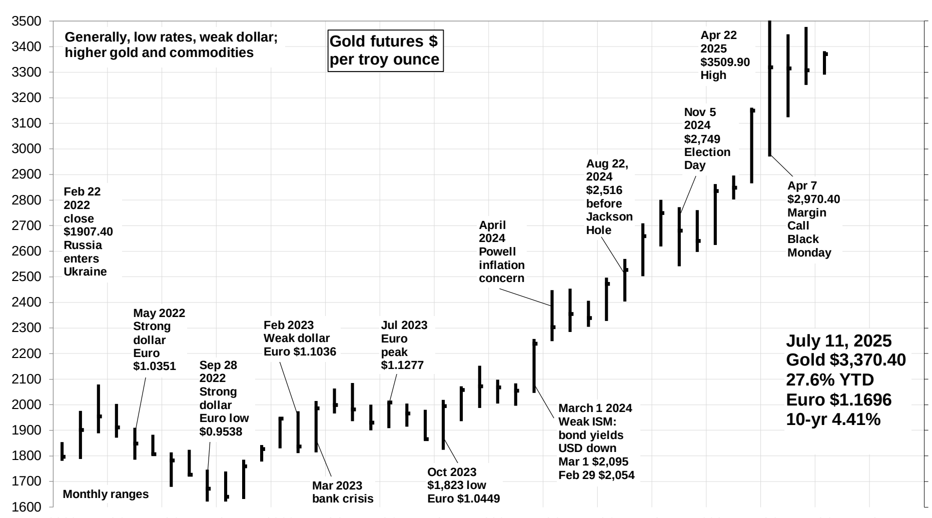



A couple of downdrafts for stocks from the July 3 record on tariff news this week. Stocks fell as much as 1.2% Monday (Trump tariff letters 25% for Japan and South Korea starting August 1 announced around 1220pm ET). New highs on Thursday until Friday's decline as much as 0.7% on news Canada tariff would be 35%. No one knows when the tariff threats will end, and the tariff effects will take time to affect the trade and inflation data. Trump waited till Saturday morning to put 30% tariffs on Mexico and the EU starting August 1. Bond yields saw a good 10-yr auction on Wednesday, and perhaps some assist with Trump's 3 percentage points rate cut news at 10am ET. The bond market sell-off, higher yields trend from 4.19% on July 1 is holding with support at 4.34%. Stay tuned. Oh, and Fed Governor Waller who wants Powell's job said Thursday a rate cut in July would not be political.

## Gold futures up 27.6% YTD; S&P 500 up 6.4% YTD

Gold went on a $500 run after initially falling for a few days with stocks and bonds following the Trump tariff Rose Garden speech on April 2. The peak was $3,509.90 on April 22. The dollar has not weakened much since the gold April 22 high of $3,509. Euro was $1.1574 April 21 and the recent high was $1.1829 on July 1.

| S&P 500 Weights | |
|---|---|
| Top 7: 33% of S&P | |
| 7.53 | NVIDIA |
| 7.01 | MSFT |
| 5.97 | AAPL |
| 3.95 | AMZN |
| 2.97 | Meta |
| 2.44 | Broadcom |
| 1.94 | GOOGL |
| 1.58 | GOOG |



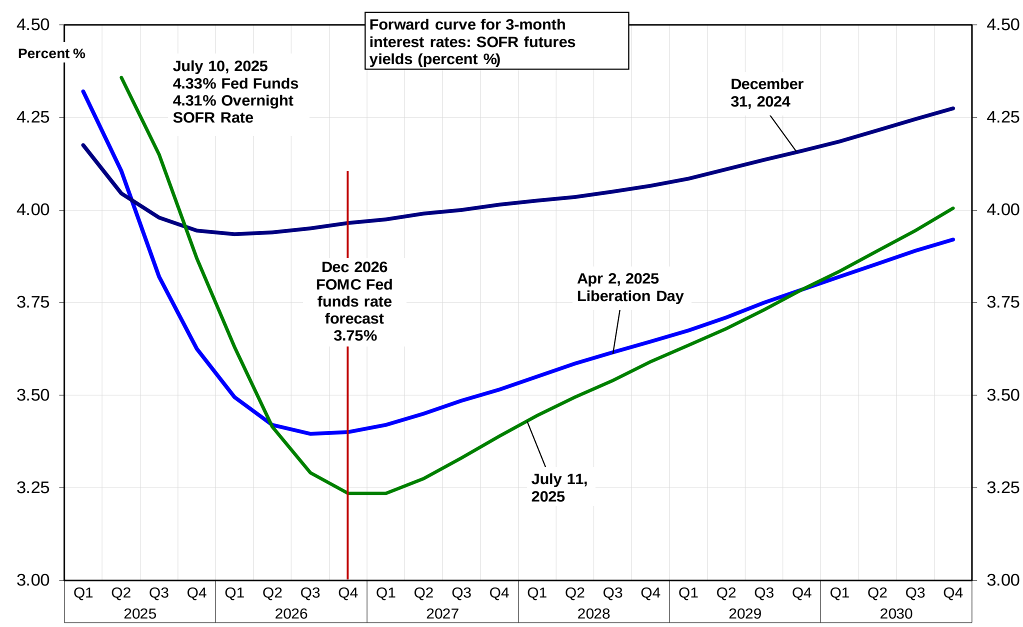
# FEDERAL RESERVE POLICY

The Fed meets July 29-30, 2025 to consider its monetary policy. The President said rates should be 3 percentage points lower at 1.5% Wednesday morning before the June Fed meeting minutes released same-day at 2pm. There was a good 10-yr Treasury auction the same day at 1pm. We like our money market fund interest, but the President is unlikely to agree with our idea that the Fed funds rate should be brought down to 3% neutral over time and then just let it sit there through economic cycles. Fed funds futures see two 25 bps Fed rate cuts this year if you can trust the low-volume on the January 2026 contract, and Bessent talking with billionaires in Idaho said two rate cuts as well. The 1.5% Trump rate will have to wait for now, but 2026 could see Fed meetings closer to the style of his cabinet meetings.

| Selected Fed assets and liabilities<br>Fed H.4.1 statistical release<br>billions, Wednesday data | 9-Jul | 2-Jul | 25-Jun | 18-Jun | 3/11/20* | Change from 3/11/20 to Jul 9 |
|---|---|---|---|---|---|---|
| **Factors adding reserves** | | | | | | |
| U.S. Treasury securities | 4208.526 | 4208.325 | 4212.617 | 4212.303 | 2523.031 | 1685.495 |
| Federal agency debt securities | 2.347 | 2.347 | 2.347 | 2.347 | 2.347 | 0.000 |
| Mortgage-backed securities (MBS) | 2138.496 | 2138.496 | 2138.496 | 2156.168 | 1371.846 | 766.650 |
| Repurchase agreements | 0.000 | 0.000 | 0.016 | 0.000 | 242.375 | -242.375 |
| Primary credit (Discount Window) | 6.131 | 6.354 | 6.308 | 5.383 | 0.011 | 6.120 |
| Bank Term Funding Program | 0.000 | 0.000 | 0.000 | 0.000 | | |
| FDIC Loans to banks via Fed | 0.000 | 0.000 | 0.000 | 0.000 | | |
| Paycheck Protection Facility | 1.442 | 1.449 | 1.673 | 1.722 | | |
| Main Street Lending Program | 5.189 | 5.184 | 5.179 | 5.174 | | |
| Term Asset-Backed Facility (TALF II) | 0.000 | 0.000 | 0.000 | 0.000 | | |
| Gold stock | 11.041 | 11.041 | 11.041 | 11.041 | 11.041 | 0.000 |
| Central bank liquidity swaps | 0.055 | 0.037 | 0.019 | 0.021 | 0.058 | -0.003 |
| **Federal Reserve Total Assets** | 6713.2 | 6710.4 | 6713.5 | 6732.3 | 4360.0 | 2353.210 |
| ~~3-month Libor %~~ SOFR % | 4.32 | 4.40 | 4.36 | 4.28 | 1.15 | 3.170 |
| **Factors draining reserves** | | | | | | |
| Currency in circulation | 2403.329 | 2401.421 | 2395.195 | 2393.987 | 1818.957 | 584.372 |
| Term Deposit Facility | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| U.S. Treasury Account at Fed | 311.048 | 372.232 | 334.579 | 383.851 | 372.337 | -61.289 |
| Treasury credit facilities contribution | 2.029 | 2.029 | 2.029 | 2.029 | | |
| Reverse repurchases w/others | 227.273 | 237.307 | 210.879 | 205.050 | 1.325 | 225.948 |
| **Federal Reserve Liabilities** | 3371.237 | 3453.862 | 3366.184 | 3409.310 | 2580.036 | 791.201 |
| **Reserve Balances (Net Liquidity)** | 3341.999 | 3256.502 | 3347.274 | 3322.991 | 1779.990 | 1562.009 |
| Treasuries within 15 days | 50.659 | 55.110 | 64.395 | 54.451 | 21.427 | 29.232 |
| Treasuries 16 to 90 days | 199.034 | 192.079 | 194.397 | 205.803 | 221.961 | -22.927 |
| Treasuries 91 days to 1 year | 436.472 | 438.945 | 422.659 | 421.157 | 378.403 | 58.069 |
| Treasuries over 1-yr to 5 years | 1434.947 | 1434.865 | 1449.600 | 1449.494 | 915.101 | 519.846 |
| Treasuries over 5-yrs to 10 years | 516.011 | 515.988 | 511.577 | 511.546 | 327.906 | 188.105 |
| Treasuries over 10-years | 1571.403 | 1571.338 | 1569.989 | 1569.852 | 658.232 | 913.171 |
| Note: QT starts June 1, 2022 | Change | 7/9/2025 | 6/1/2022 | | | |
| U.S. Treasury securities | -1562.253 | 4208.526 | 5770.779 | | | |
| Mortgage-backed securities (MBS) | -568.950 | 2138.496 | 2707.446 | | | |
| **March 11, 2020 start of coronavirus lockdown of country | | | | | | |

| Fed Policy-key variables | 2025 | 2026 | 2027 | Long Term |
|---|---|---|---|---|
| Fed funds | 3.9 | 3.6 | 3.4 | 3.0 |
| PCE inflation | 3.0 | 2.4 | 2.1 | 2.0 |
| Core inflation | 3.1 | 2.4 | 2.1 | |
| Unemployed | 4.5 | 4.5 | 4.4 | 4.2 |
| GDP | 1.4 | 1.6 | 1.8 | 1.8 |
| June 2025 median Fed forecasts | | | | |

| Fed Policy-key variables | 2025 | 2026 | 2027 | Long Term |
|---|---|---|---|---|
| Fed funds | 3.9 | 3.4 | 3.1 | 3.0 |
| PCE inflation | 2.7 | 2.2 | 2.0 | 2.0 |
| Core inflation | 2.8 | 2.2 | 2.0 | |
| Unemployed | 4.4 | 4.3 | 4.3 | 4.2 |
| GDP | 1.7 | 1.8 | 1.8 | 1.8 |
| March 2025 median Fed forecasts | | | | |




All but 7 bps of a 25 bps rate cut is expected by the September meeting.

| Fed funds futures call Fed policy | | |
|---|---|---|
| Current target: July 11 -- 4.50% | | |
| Rate+0.17 | Contract | Fed decision dates |
| 4.485 | Aug 2025 | Jul 30 |
| 4.320 | Oct 2025 | Adds Sep 17* |
| 4.175 | Nov 2025 | Adds Oct 29 |
| Last trade, not settlement price | | |
| *Not strictly true, Oct 2025 could be 2 days at a new rate | | |

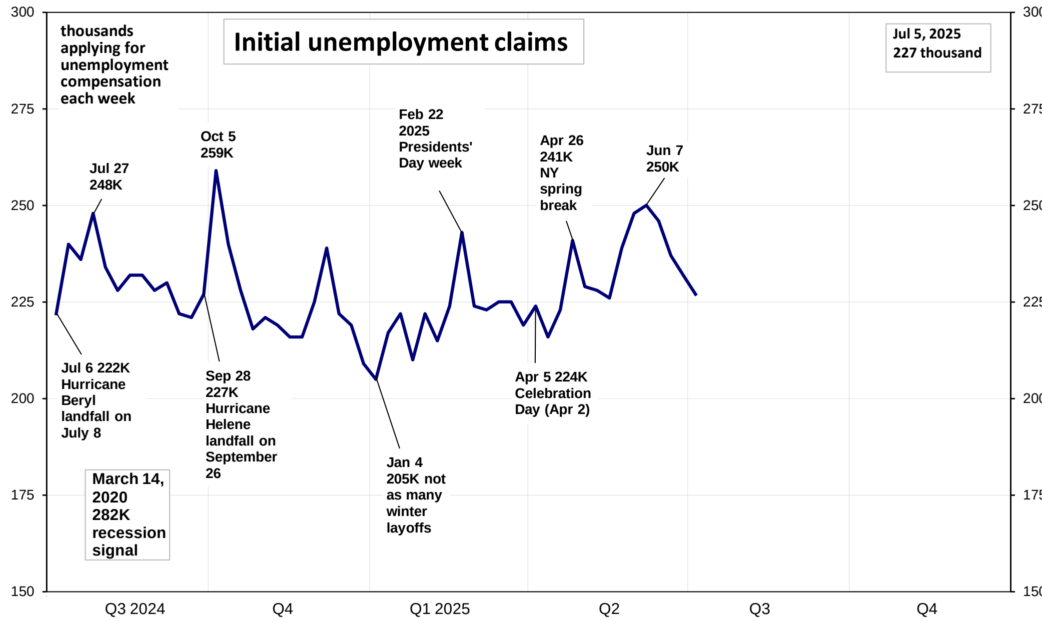
**Next up: June CPI inflation report Tuesday, July 15 at 830am ET**

| Monthly % Changes | 2025 Jun | May | Apr | Mar | Feb | 2025 Jan | 2024 Dec | Nov | Oct | Sep | Aug | Jul | Jun | May | 2024 Apr |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Core CPI inflation | | 0.1 | 0.2 | 0.1 | 0.2 | 0.4 | 0.2 | 0.3 | 0.3 | 0.3 | 0.3 | 0.2 | 0.1 | 0.1 | 0.3 |
| Core PCE inflation | | 0.2 | 0.1 | 0.1 | 0.5 | 0.3 | 0.2 | 0.1 | 0.3 | 0.3 | 0.2 | 0.2 | 0.2 | 0.1 | 0.3 |
| Core PCE YOY | | 2.7 | 2.6 | 2.7 | 2.9 | 2.7 | 2.9 | 2.8 | 2.8 | 2.7 | 2.7 | 2.7 | 2.6 | 2.7 | 2.9 |
| Core CPI YOY | | 2.8 | 2.8 | 2.8 | 3.1 | 3.3 | 3.2 | 3.3 | 3.3 | 3.3 | 3.2 | 3.2 | 3.3 | 3.4 | 3.6 |

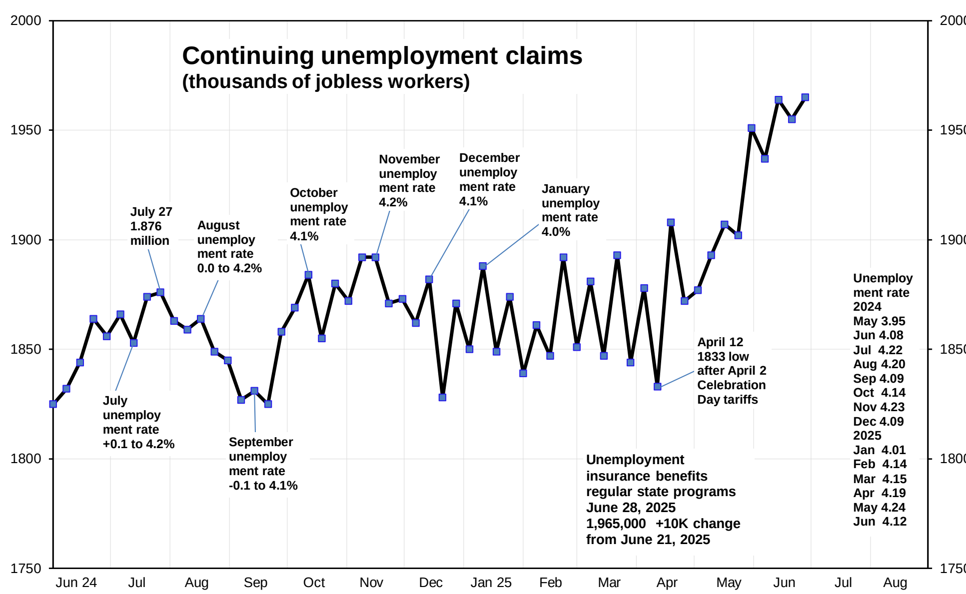
## OTHER ECONOMIC NEWS

### 2025 record for jobless benefits (Thursday)

Breaking economy news. First-time jobless claims have come back down to 227K in the July 5 holiday week from the recent peak of 250K in the June 7 week. The seasonal layoffs at the automakers for “factory retooling and maintenance” in the first two weeks of July, traditionally, sent initial claims in Michigan up to 15,581 from 6,783 the week before but it wasn’t enough to overwhelm the seasonal factor. Continuing claims are at a new 2025 high of 1.965 million in the June 28 week showing the lagged effect of first time claims earlier in June, or it could mean there are no jobs for the taking out there so the jobless continue to take the benefits.




Net, net, the labor market outlook remains uncertain, and while the trade war announcements have not led to any additional new filings for jobless benefits, the underlying picture is much darker with a record number of Americans drawing unemployment benefits because there is no work out there for them currently. We can only conclude that American businesses have simply stopped hiring as the path ahead for the economy looks increasingly difficult with tariffs likely to boost the costs of goods purchased by consumers and businesses alike. A hiring freeze means Americans are stuck on the nation’s jobless rolls with no way to get off. Stay tuned.



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